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THE TAXATION OF TEA, 1767-1773

HISTORIANS are agreed that in 1767 the British Parliament laid a tax of three-pence a pound upon all tea imported into the American colonies. They are also agreed that, owing to certain concessions granted to the East India Company by Parliament, in spite of the tax tea could be sold cheaper in America than in England. But how much cheaper, and just what these concessions were, are questions which have never been satisfactorily answered. It seems to be the prevailing opinion that Parliament granted to exporters of tea to America a drawback of a specific inland duty amounting to one shilling a pound, which was levied on all teas consumed in Great Britain, and that tea could, therefore, be sold nine-pence per pound cheaper in America than in England.¹ A merely cursory examination of the acts of Parliament on the subject, however, shows that this could not be true, for the Townshend Acts, instead of taking off the inland duty of 1 s. a pound from teas exported to America, removed this duty from all teas consumed in Great Britain. How, then, was it possible that the price of tea could be lower in America?

All tea imported into England by the East India Company, who possessed a monopoly of the trade, was subject to the regular customs duties, which consisted of the Old and New Subsidies and other subsidies granted at various times, and which amounted in 1767 to £23. 18s. 7½d. on every £100 of the gross price,² or about twenty-four per cent. In addition to these import duties, on being taken from the warehouses and sold at public auction, tea was subject to certain inland duties, which had varied from time to time, but which, at the time of the passage of the Townshend Acts, consisted of one duty of a shilling a pound, and of a further duty of £25 on every £100 of the gross price.³ The duties on tea thus amounted to about fifty per cent. and 1s. a pound, but an act of 21 Geo. 2. c. 14, which was still in force, permitted tea to be exported to Ireland and America without the payment of either of these inland duties, and the Townshend Acts further modified them by removing for five years, beginning July 5, 1767, the inland duty of one shilling a pound from all teas consumed in Great Britain, and upon the ex-

¹ Cf., for example, Channing, *The United States of America, 1765-1865*, p. 65.

² Baldwin, *Survey of the British Customs* (London, 1770), Second Part, pp. 26 and 91.

³ Act of 18 Geo. 2. c. 26.

portation of teas to "Ireland and his Majesty's plantations in America" a drawback was allowed of the "whole of the duty paid upon the importation thereof" into Great Britain.¹

At first sight it would seem as if tea, being thus subject to duties of fifty per cent. in England to which it was not subject in America, could be sold in the latter country one-third cheaper than in England. But such was not the case, for what Parliament took off with one hand it laid on again with the other, and this same act of 1767 only granted these drawbacks on condition that the East India Company should make good any deficiency in the revenues that might result from the discontinuance of the duties. The section which states how the amount of this deficiency should be determined is so ambiguously worded that it is little wonder that the present confusion has arisen as to the extent of the drawback. Yet we are not left in doubt as to the intention of Parliament, for some five years later, when the accounts with the East India Company under this act were being settled, Parliament passed an explanatory act, which declares that it is "the true intent and meaning of the said act, That the said united company should fully indemnify your Majesty for any diminution of your Majesty's revenue, which might happen from the experiment in the said act mentioned."²

It was the evident purpose of Parliament to enable the East India Company to lower the price of tea,³ where necessary, to such an extent that they could successfully compete with the Dutch, their great rivals in the East India trade, and it was at the same time their expectation that the company could afford, out of the profits from their increased sales, to make good any deficiency which might result to the revenues of the crown. Whether based upon previous calculations of the East India Company or not, it is impossible to state, but it certainly was the prevalent idea that the concessions granted by Parliament permitted the company to sell teas for export to America twenty-five per cent. cheaper than those for consumption in England. As the East India Company itself seems to have acted on this assumption, for tea was sold in America nine-pence per pound cheaper after the passage of the Townshend Acts,⁴ and as the average price of tea had been about four shillings

¹ Act of 7 Geo. 3. c. 56.

² Act of 12 Geo. 3. c. 7.

³ The East India Company, though not permitted to sell at retail, could command the price of tea, and even set different prices in England and America, for they were permitted to name an upset price at their public auction sales, and exporters were required to export direct from the warehouses.

⁴ The *Boston Gazette* of September 18, 1769, publishes a notice to the effect that John Metter sold Enoch Greenleaf two chests of tea 9d. O. T. per pound under the common price.

per pound,¹ it is easy to understand how the statement originated that the drawback of the duty on teas exported to America was a shilling a pound, and as this statement was repeatedly made in the debates on the subject in Parliament historians would seem to have had sufficient authority for accepting it. But from the fact of its amounting to one shilling a pound, an accident of price, to infer that the drawback was of a specific inland duty of a similar amount is clearly unwarranted.

If the interpretation of the acts of Parliament that has been given is the correct one, it is evident that it was not a matter of one shilling a pound, nor of twenty-five per cent., but that the actual amount of the benefit of the drawback was dependent upon the East India Company alone,² and was determined by the exigencies of the case. And this interpretation is confirmed by the statements of Governor Pownall, who said in the course of the debate on the repeal of the Townshend duties in 1770 :

"I have heard it said, that this 3d. per pound duty collected in America does, while a drawback of twenty-five per cent. is allowed here, operate as a bounty of 9 d. per pound in favor of Americans.

"In the first place, the drawback upon those teas exported to America of twenty-five per cent. does not amount to one shilling per pound; it amounts only to 7½d. or thereabout;³ so that did it operate as a bounty at all it would amount only to 4½d. . . . It does not operate as a bounty at all, for whatever duty the East India Company pays originally at the custom house on importing teas from Asia, that sum is added to the price on their sales; so that although the exporter is allowed a drawback, yet he draws back that sum only which he hath already paid in the price of his purchase."⁴

This interpretation also clears up the otherwise inexplicable statement of Hutchinson that "by taking off twelve-pence, which used to be paid in England, and substituting three-pence only, payable in the colonies, it (tea) was cheaper than it had ever been sold by the illicit traders; and the poor people in America drank the same tea in quality, at three shillings the pound, which the people in England drank at six shillings."⁵

¹ Macpherson, *History of European Commerce with India* (London, 1812), p. 416, states that the total amount of tea sold by the East India Company in 1765 was 5,473,186 pounds for £1,137,238, and in 1766 the amount was 5,586,356 pounds, for £995,858.

² By raising the upset price at their auction sales the company could offset all or part of the benefits derived from the drawback.

³ The price of tea had fallen; see Macpherson, loc. cit., p. 416.

⁴ Hansard's *Parliamentary Debates*, XVI. 865.

⁵ Hutchinson, *History of Province of Massachusetts Bay, 1750-1774* (London, 1828), p. 351.

With the explanation that has been given the subsequent acts of Parliament on this subject, which are otherwise very confusing, seem simple enough. The concessions which were granted by the Townshend Acts did not accomplish as much as was expected of them. Though the company's sales of tea were nearly doubled,¹ they found themselves obliged to pay over £115,000 for the first four years of the experiment.² Accordingly in 1772, when the act of 1767 was about to expire, Parliament passed another act, this time granting a drawback of three-fifths of the import duties on tea exported to America, without requiring the East India Company to make any indemnity therefor.³ And the following year (1773), when this was found to be insufficient to induce the Americans to purchase tea, the drawback was increased to cover all of the duties paid on importation, and permission was given to the commissioners of the treasury to grant licenses to the East India Company itself to export tea to America without having put it up for sale at their warehouses.⁴ The company could, of course, sell the tea at a much lower price than could be afforded by particular merchants who purchased it in England, so that in 1773, instead of tea being sold in America nine-pence per pound cheaper than in England, if the East India Company had been able to offer for sale the tea imported under this act, they could have sold it at a mere fraction of the price obtained in England.

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¹ Macpherson, loc. cit., pp. 194, 416.

² See Act of 12 Geo. 3. c. 7.

³ Act of 12 Geo. 3. c. 60. The drawback of three-fifths referred to in Bancroft, *History of the United States* (Author's Last Revision), V. 438, 439.

⁴ Act of 13 Geo. 3. c. 44.